

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 L-03 H-01 PA-01 PRS-01 USIA-06
SP-02 AID-05 EB-08 NSC-05 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 /081 W

-----170341Z 073159 /20

R 160529Z MAR 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 7186

INFO AMEMBASSY SUVA

AMEMBASSY WELLINGTON

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USADB

FOR NAC AGENCIES

E.O. 1.495.;6(); DECLAS 6/16/77

TAGS: EAID, EFIN

SUBJECT: ADB LOAN FOR TELECOMMUNICATIONS IN TONGA; REQUEST BY
BORROWER TO CHANGE SCOPE OF PROJECT

REF: (A) 73 MANILA 11917, (B) 75 MANILA 14183

SUMMARY: ADB MANAGEMENT PROPOSES, ON NO OBJECTION BASIS,
SECOND REVISION OF TONGA TELECOMMUNICATIONS PROJECT (LOAN
NO. 146-TON) WOING MAINLY TO CONTINUED EQUIPMENT COST
INCREASES. FIRST REVISION, IN OCT 1975, DIVIDED PROJECT
INTO TWO PHASES, WITH BANK PARTICIPATION LIMITED TO PHASE I,
COVERING MAIN ISLAND OF TONGATAPU. CURRENT PROPOSAL IS FOR
A RESTRICTED PHASE I, LIMITED OT NUKU'ALOFA ONLY. BANK'S
SHARE OF PROJECT WOULD REMAIN AT \$1.3 MILLION. ADB DOES
NOT PLAN TO OBJECT. END SUMMARY.

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1. IN NOV 1973, ADB APPROVED LOAN OF \$1.3 MILLION FROM
SPECIAL FUNDS RESOURCES TO FINANCE FOREX COST OF TONGA
TELECOMMUNICATIONS PROJECT (LOAN NO. 146-TON). TOTAL COST
OF PROJECT WAS ESTIMATED AT \$1.6 MILLION, INCLUDING LOCAL
COSTS OF \$0.3 MILLION. MAJOR COMPONENTS INCLUDED PRO-
VISION OF LOCAL TELEPHONE SERVICES FOR MAIN ISLAND OF
TONGATAPU AND ISLAND GROUPS OF VAVA'U AND HA'APAI, AND

UPGRADING OF RADIO SYSTEM LINKING THESE GROUPS TO CAPITAL, NUKU'ALOFA.

2. IN OCTOBER 1975, AFTER APPEARANCE OF A CONSIDERABLE COST OVERRUN ON FOREX COMPONENTS, BOARD APPROVED DIVISION OF PROJECT INTO TWO PHASES (ADB DOC R93-75) DATED 30 SEPT 1975). PHASE I, WAS FOREX COSTS OF \$1.3 MILLION, WOULD COVER MOST OF LOCAL TELEPHONE SERVICE OF TONGATAPU. PHASE II, WITH FOREX COSTS OF \$1.9 MILLION, WOULD COVER TELEPHONE EXCHANGE SYSTEMS IN OTHER ISLAND GROUPS AND INTER-ISLAND RADIO COMMUNICATIONS SYSTEM. BANK AGREED FINANCE FOREX COSTS OF PHASE I, WHILE GOVT WOULD ARRANGE OTHER FOREX FINANCING FOR PHASE II.

3. BEING UNSUCCESSFUL IN ITS EFFORTS TO ARRANGE PHASE II FINANCING, GOVT IN JULY 1976 DECIDED (WITH BANK'S CONCURRENCE) THAT CONSULTANTS SHOULD CONSIDER REDUCING SCOPE OF PROJECT TO ALL OR PART OF PLANNED SYSTEM ON TONGATAPU ONLY. CONSULTANTS' REPORT, PRESENTED IN A FINANCIAL VIABILITY REPORT DATED OCT 1976, WAS DISCUSSED IN NOV 1976 AMONG TONGAN AUTHORITIES, BANK AND CONSULTANTS. AS RESULT OF THIS MEETING, IT WAS AGREED TO REFORMULATE PROJECT TO A REDUCED PHASE I CONFINED ONLY TO A TELEPHONE SYSTEM FOR NUKU'ALOFA (1,500 LINES). THIS IS BELIEVED TO BE MINIMUM TECHNICALLY SELF-CONTAINED PROJECT ACCEPTABLE. BY LETTER OF NOV 19, 1976, GOVT HAS ASKED BANK TO PROCEED ON THIS BASIS.

4. TOTAL COST OF REVISED PROJECT IS \$2,050,000, OF WHICH LIMITED OFFICIAL USE

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FOREX COMPONENT IS \$1,723,000. BANK'S SHARE WOULD REMAIN AT \$1.3 MILLION OF FOREX COSTS. GOVT HAS ASSURED THAT IT WILL TAKE ALL NECESSARY STEPS TO ENSURE PROVISION OF FUNDS REQUIRED OVER AND ABOVE BANK LOAN.

5. ORIGINAL PROJECT HAD ESTIMATED FINANCIAL RATE OF RETURN OF 11 TO 14 PERCENT, DEPENDING ON CALLING RATE. FINANCIAL RATE OF RETURN OF REDUCED PHASE I PROJECT, BASED ON SIGNIFICANTLY HIGHER TARIFFS AND RENTALS THAN THOSE SUBSUMED UNDER ORIGINAL PROJECT (TARIFFS UP 233 PERCENT, RENTALS UP 108 PERCENT), IS BETWEEN 9 AND 15 PERCENT. GOVT WILL SEEK APPROVAL OF NEW RATES AT NEXT SESSION OF PARLIAMENT, TO BE HELD IN MID-1977.

6. GOVT CONTINUES ACCORD HIGH PRIORITY TO DEVELOPMENT OF NATION-WIDE TELEPHONE SYSTEM. MAIN BENEFITS WILL BE IN PROMOTION OF TRADE, COMMERCE, INDUSTRY AND TOURISM WHICH ARE PRESENTLY CONSTRAINED BY INADEQUATE AND INEFFICIENT FACILITIES. REDUCED PHASE I WILL PROVIDE

IMPORTANT INITIAL LINK IN SUCH A SYSTEM.

7. IN ABSENCE OF OBJECTION OR REQUEST FOR DIS-
CUSSION BY COB MARCH 21, PROPOSED REVISION OF PROJECT
SCOPE WILL BE DEEMED TO HAVE BEEN APPROVED. USADB DOES
NOT PLAN TO OBJECT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TELECOMMUNICATION, EQUIPMENT, LOANS
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977MANILA03858
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770091-0282
Format: TEL
From: MANILA
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1977/newtext/t19770353/aaaabtyq.tel
Line Count: 124
Litigation Code IDs:
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Litigation History:
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Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 73 MANILA 11917, 75 MANILA 14183
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 10-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3088731
Secure: OPEN
Status: NATIVE
Subject: ADB LOAN FOR TELECOMMUNICATIONS IN TONGA; REQUEST BY BORROWER TO CHANGE SCOPE OF PROJECT
TAGS: EAID, EFIN, ADB
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/a5c509b7-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009